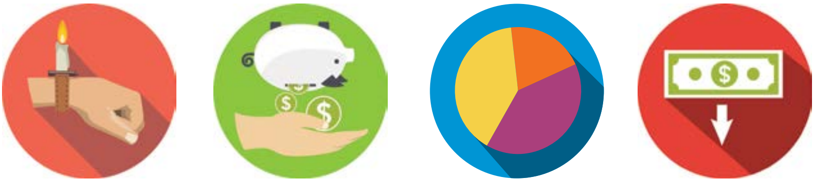
Financial IQ
The Fundamentals of Financial Well-Being



Retirement Risks

Why is addressing retirement risks so critical?

The same financial risks you might face today may have a greater impact during retirement:

1) You will be living on a fixed income.
2) Your retirement nest egg will be a finite number.
3) You will have a shorter window of time to recover from a financial setback.
4) Many financial risks in retirement are interrelated.

It is important to consider the risks you may face in retirement and understand how each risk can affect your retirement funding strategy.

Longevity risk

Longevity is the duration of a person’s life. When we talk about longevity as a retirement risk, we mean the possibility of outliving your money.

In short, the longer you live, the more money you will need to fund your retirement, which for some, may last 30 years or more.

You also need to consider that one of you – either you or your spouse/partner – will still be living after the other is gone. So it is not just your longevity that needs to be planned around, it is your loved one’s as well.

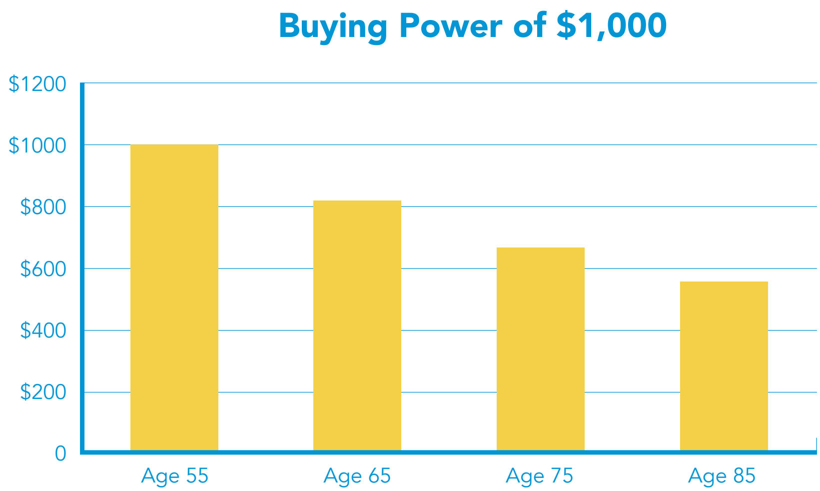
Things to consider:

- Identify sources of income that can provide “income for life.” That way, regardless of how long you’ll live, you will always have some level of monthly income.
- Contribute more to your retirement accounts. If you are over 50 years old, consider taking advantage of the option of “catch-up” contributions that many retirement plans offer.
- Manage withdrawal rates from your savings in retirement. You’ll want your savings to last as long as possible.

Inflation risk

Inflation is the rate of increase in prices and the related fall in the purchasing value of money. It's an important retirement risk to consider because it affects the future buying power of your fixed income and retirement savings.

Simply put, when inflation occurs, the buying power of your dollar decreases.



Assumption: 2% decrease in value of $1,000 annually to represent effects of 2% rate of inflation compounded annually over a 30-year period.

Things to consider:

- Consider strategies that can help your investments keep pace with the current rate of inflation
- Investigate products that feature automatic cost-of-living adjustments (COLA)
- Identify areas for potential expense reductions, especially categories that are particularly affected by inflation

Rate of withdrawal risk

The rate of withdrawal is the amount you withdraw from your retirement savings each year to pay for various expenses. Two retirement risks associated with your withdrawal rate are:

1) Withdrawing too much from savings each year. This can leave you with limited funds later in life
2) Withdrawing money from your savings immediately following a down market. This can compound issues associated with poor market returns

It's important to ensure that your rate of withdrawal can not only help cover a portion of your annual expenses, but is also at a sustainable rate so your savings can last the duration of your retirement.

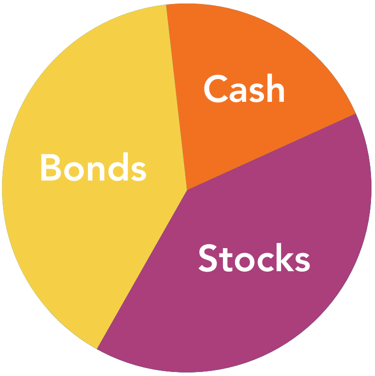
Things to consider:

- Limit withdrawals from savings in years following market downturns
- Seek investment opportunities that limit the impact of negative market returns
- Have additional sources of predictable income; rely less on savings withdrawals to cover regular expenses

Asset allocation risk

Asset allocation* is how you divide your money between asset classes, such as cash or cash equivalents, bonds and stocks.

During retirement, you should consider various allocation strategies that will allow you to both protect your assets and conserve principle, but also grow to keep pace with inflation.



Sequence of returns

Be aware of the concept of "sequence of returns." Sequence of returns refers to the effects of market volatility on your portfolio at different points during retirement. Most critical, investment losses early in retirement may jeopardize the long-term sustainability of your income-generating portfolio.

Things to consider:

- A diverse portfolio – both between asset classes and within asset classes – can help your assets weather market downturns
- Adjust your asset allocation strategy as necessary as your needs and overall market performance change

Diversification can potentially help lower your investment risk.

*Asset allocation/diversification does not assure a profit and does not protect against a loss in a declining market. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio, or that diversification among asset classes will reduce risk.

Health care risk

There are two main types of health care needs you may experience in retirement.

Acute
Health conditions that come on suddenly and may require urgent medical care

Chronic
Health conditions that may require long-term assistance from qualified professionals

Chronic health care

Chronic medical conditions can take many forms and have many causes, including illnesses or catastrophic injuries. It can also come in the form of dementia or Alzheimer's, or nervous system conditions such as Parkinson's disease.

Oftentimes, the chronic conditions may restrict a person's ability to manage activities of daily living, such as eating, bathing, dressing or moving around without assistance.

Things to consider:

For any **acute** care needs, Medicare, private health insurance and a Health Savings Account (if available to you) may help minimize risks.

For **chronic** conditions, you may be able to utilize Medicare or private health insurance to start, but continued coverage from these programs often require your health to show continued improvement; this is often not the case with chronic conditions.

There are some options that may be available to you to help your lower the financial risk of a chronic care need. Speak with your financial professional.

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